Annual Review 2015

RI

FROM RESPONSIBLE TO IMPACT INVESTMENTS •
ESG CONVICTIONS •
INNOVATIVE & IMPACTFUL SOLUTIONS •
ESG INTEGRATION •
CLIMATE CHANGE •
ACTIVE STEWARDSHIP •
GREEN BONDS •
TAILORED RI SOLUTIONS

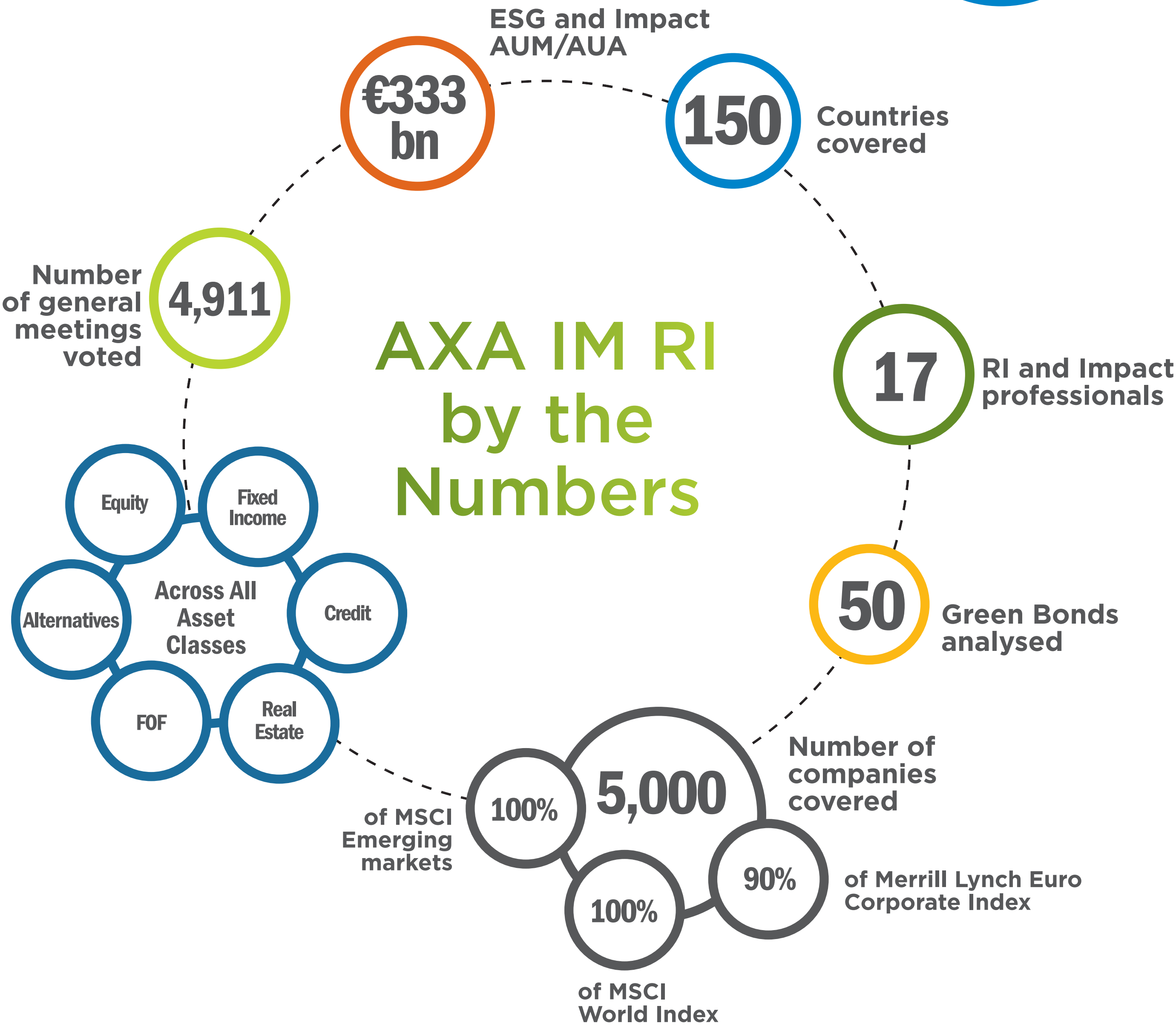
AXA INVESTMENT MANAGERS

OUR PHILOSOPHY

Where Finance belongs - We believe in harnessing the power of capital towards sustainable and impactful investments that address societal challenges.

OUR MISSION

To be the global RI and Impact Centre of Excellence that delivers sustainable value to our clients.



Source: AXA IM as at 31.12.2015

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Matt Christensen
Global Head of Responsible Investment

2015 IN REVIEW

Undoubtedly, 2015 was the 'Big Bang' equivalent for Responsible Investment (RI). Culminating in The Paris Accord at the United Nations' COP 21 meetings held in Paris, climate change was the lever used to push RI boldly into the mainstream of asset management. In the future, 2015 will be viewed in the same vein as 1987 for the City of London with the developments that led to its present status as the global financial centre. RI is no longer an option based on a compliance rationale – it is now a must-have and will lead to a race to the top for the asset management industry in its embrace and integration of environmental, social and governance (ESG) factors and Impact-based outcomes.

Nonetheless, we should also note that the bull market that started in 2009 clearly tapered off in 2015. Financial markets - faced with lower growth in emerging economies, a challenging political situation about the future of the EU, and an upcoming presidential election in the USA – increasingly need to demonstrate the utility of finance as a means to boost growth. Responsible Investment is part of the answer to this need through its focus on ESG risks and outcomes in the form of positive impacts.

AXA IM has been strongly positioned in Responsible Investment for a long time and was able to respond to the many client demands that culminated around the COP 21 event. These demands bridged asset classes, geographies and themes.

Perhaps one of the most significant achievements for AXA IM in 2015 was being awarded a mandate by Big Society Capital that clearly represents the future of RI and positions us at the cutting edge of the field. The AXA IM RI team partnered with the AXA IM Fixed Income group to secure this UK-based mandate that combines ethical exclusions, ESG optimised integration in the portfolio construction process and concrete measurements of the impact outcomes.

Fixed Income was also a leading asset class behind the launch of our Planet Bond strategy in November with an innovative approach for assessing the integrity of the rapidly expanding green bond issuances. With the increasing popularity of green bonds, an important role for ESG fundamental research is to avoid 'green washing' in the portfolio which is always a risk in an area where common definitions still do not exist.

As mentioned previously, the AXA IM RI team is well positioned for the upswing in demand. Last year represented a step change in the demands that our team received and we have already started the expansion of resources needed to cover and anticipate this growth. The skills required now to competently answer the richness of client demands include; know-how in multiple asset classes, economic sector depth, and thematic expertise.

The AXA IM RI team has become one of the largest and most experienced in the RI field. This depth and breadth means that we will keep offering pragmatic, innovative and impactful solutions covering the full range of RI aspects such as corporate governance engagement, climate change transition and outcome measurement – that is, the range from SRI filtering to ESG integration to Impact solutions.

Source: AXA IM as at 31.12.2015

POST COP21 - AXA IM OUTLOOK

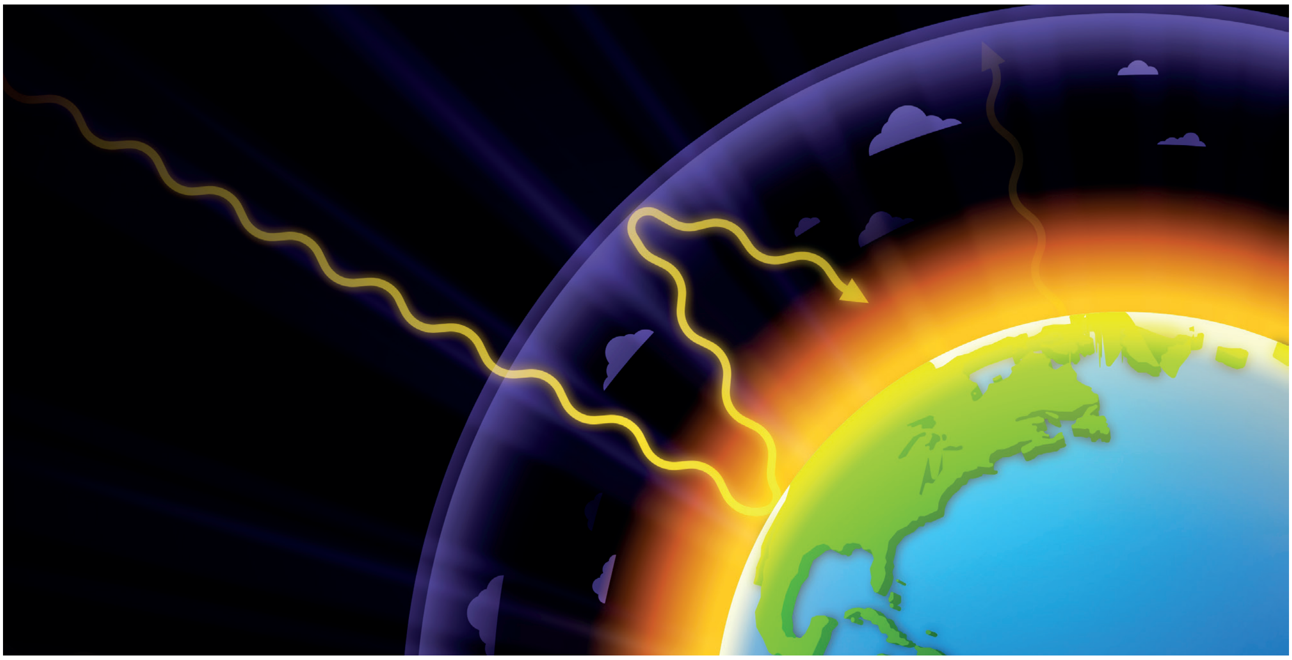
TOUS ENSEMBLE POUR LE CLIMAT
cop21.gouv.fr #COP21

The climate change 'Paris Accord' reached at COP21 sends a clear message to companies operating in the power generation, energy, transport, building and industrial sectors: change is required and it needs to happen now. In our view, the emerging investment opportunities and governance implications from this agreement include:

- Carbon-intensive sectors: An impact on asset allocation is likely in the long-term, however the more immediate effect is that analysts and investors will incorporate climate change into research and fundamental analysis.
- Opportunities to finance the transition to a low-carbon economy: public and private investors will be key sources of capital for investment in new technologies that support energy efficiency. The opportunity will impact many sectors, regions and asset classes. In the meantime, the French Regulator is already pushing private investors to integrate ESG and climate change in their investment decisions.
- Greater engagement and higher governance standards: The Financial Stability Board will be pushing companies to disclose their climate related risks, increasing transparency and making ESG analysis and scoring more robust. Engagement will allow investors to have a better view of the progress made by companies in moving to cleaner technologies and more environment friendly business models.

We believe the trend of investors divesting from the highest carbon intensive sectors will now accelerate. So far, more than 500 institutions have divested, representing close to $3.4 trillion in assets[1].

2015 was the fourth consecutive record year in green bond issuance, and the market now stands at USD 100 billion[2]. Corporates are now the largest issuers, a market previously dominated by supranationals and agencies. The pace of issuance has accelerated, partly due to COP21, but also due to the development of voluntary standards for issuing green bonds in India and China.



[1] Fossil Free 2015
[2] Bank of America Merrill Lynch, December 2015

POST COP21 FRENCH ENERGY TRANSITION LAW

In August 2015, France passed the Energy Transition Law, the first of its kind in Europe. It will come into full effect in June 2017. We believe that this law constitutes a landmark for RI. It shows how regulation can encourage the rising trend for RI and provide strong support for its further development. France has decided to provide a clear signal to institutional investors with this law by encouraging them to become truly engaged in RI and start considering how to better integrate environmental, social and governance (ESG) factors in their investments. The law reinforces the role of institutional investors in financing the transition towards a low-carbon economy and requires more awareness of long-term issues in investment decisions.

The law is focused on two key aspects. The first concerns the annual publication of evidence showing how relevant parties are integrating ESG criteria in their investment strategies. The second focuses specifically on environmental criteria and requires investors to explain the measures they have implemented to support the transition towards a low-carbon economy each year.

While this is a highly positive development, investors still need to better understand what these requirements mean for them. This is a particularly important issue for smaller institutional investors, who may require more support in the energy transition.

Asset managers can help investors through this transition by providing different solutions and instruments of measure, such as alternative indicators to CO_2 emissions to identify companies that are contributing positively or negatively towards the transition to the low-carbon economy. This also includes actively participating in engagement campaigns centred around climate change for high carbon intensive sectors, such as oil and gas, automotive and mining.

It is likely that this regulatory signal sent by the French government will be used as an incentive by working groups such as the FSB Task Force on Climate Related Financial Disclosure (TCFD) or by other European countries that are also improving their knowledge and awareness of RI.

NOTABLE CLIENTS BIG SOCIETY CAPITAL

In 2015, Big Society Capital, an organisation with a remit of growing the social investment market in the UK, collaborated with AXA Investment Managers and Cambridge Associates to develop an innovative approach for managing their treasury portfolio. The AXA IM solution combines the conservative approach to managing treasury reserves using a buy and maintain credit strategy, with full integration of ESG analysis to further minimise risk, and the alignment of the portfolio with the Social Impact objectives of Big Society Capital. In our novel solution, the combination of the buy and maintain credit approach and the ESG/Impact approach complement and reinforce each other and gives the portfolio its identity and direction.

Big Society Capital's ESG/Impact buy and maintain credit portfolio was constructed using AXA IM's investment process[3]. This approach integrates ESG and Impact considerations into all aspects of the investment process from portfolio construction and management to portfolio monitoring. According to Big Society Capital, the primary reason for selecting AXA IM was our capacity to deliver a truly integrated ESG/Impact and fixed income solution. The nature of the mandate required not only expertise in all areas, but a clearly defined process for integrating all three aspects into one solution.

The performance of the portfolio will be measured by three types of indicators:

- **Financial:** ultimately, capital preservation
- **ESG:** integration and risk mitigation and avoidance of controversial investments
- **Impact:** generation of social returns

On the financial performance side, success will be measured by how well it delivers on its overriding objective of capital preservation. We aim to achieve this via a low turnover approach which aims to avoid all defaults, maximise the captured market yield, minimise downgrades to sub-investment grade, and avoid performance leakage caused by unnecessary trading.

[3] AXA IM's proprietary investment process is outlined in detail in Moret, Collado and Maisonniac (2015) "An ESG Integrated Approach to Buy and Maintain Credit Investing." Investor Thinking, AXA Investment Managers.

ESG performance will be a function of the extent to which the integration of ESG considerations contributes to the mitigation of portfolio risks. Success will be a function of the optimisation of the ESG profile of the portfolio by focusing on pre-determined and objective ESG key performance indicators.

Impact success will be defined by the extent to which the portfolio is aligned with five key impact themes: **Sustainable Living, Financial Inclusion, Health & Wellbeing, Education & Training and Environment & Climate Change Mitigation.** The portfolio will aim to maximise allocation to 'Tier 1 Impact' (strongest Impact category) bonds over time. At inception, around 30% of the portfolio was invested in the 'Tier 1 Impact' category. Five years from now, a 'Tier 1 Impact' allocation of 70% would be considered a successful level of impact incorporation and generation.

The development of this solution for Big Society Capital's treasury portfolio marks a significant breakthrough for generating social impacts without compromising on portfolio returns. This solution has the potential to drive the Social Impact investment market to a new level. Should pension funds, foundations and other institutional investors follow this lead, billions of untapped assets could be deployed to generate greater social value in the coming years.

INVESTMENT INNOVATION
PLANET BONDS STRATEGY

In 2015, AXA IM launched its Planet Bonds strategy: a diversified solution investing in the transition to a low-carbon economy, through green bonds and issuers which have positive environmental impact.

Opportunities in a growing green bond universe. The strategy invests mainly in green bonds, which can potentially offer the same returns as comparable conventional bonds with the added advantage of enabling projects with environmental benefits. Given a relatively nascent green bond market, diversification is achieved by investing in issuers facilitating the transition to the low-carbon economy, while displaying robust fundamentals.

Potentially attractive yield. As a solution for investors looking to shift conventional investments towards specific environmental investments, the strategy has the potential to provide an attractive yield. This means that the investor should be able to retain attractive yield levels relative to the wider fixed income universe, while making a positive environmental impact.

A natural fit with RI. The combination of our fixed income and RI experts enables us to make a holistic assessment of each issuer, from its ESG track record and quality, to evidence of the environmental benefits from projects financed by bond proceeds.


KEY POINTS

FIXED INCOME

AXA Planet Bonds Strategy

NOVEMBER 2015

This document is intended exclusively for professional clients under MIFID

Olivier Vietti
Lead Portfolio Manager
AXA Planet Bonds Strategy

Matt Christensen
Global Head, Responsible Investment

"We created a solution for investors to shift conventional investments to specific environmental investment needs as climate change becomes a major issue for all of us.

This commitment has been materialised through this solution which invests in green bonds and bonds from issuers which deliver positive environmental impacts."

The Green Bond Universe

> A rapidly growing market: $78bn outstanding issues at mid-2015[5]
> No yield sacrifice compared to a conventional bond[2]
> Financing projects to facilitate a lower carbon economy
> Transparency over use of proceeds
> Diversifying to new currencies and countries to match infrastructure growth

A diversified solution investing in the transition to a low carbon economy, through green bonds and issuers which have positive environmental impact

- **Opportunities in a growing green bond universe.** The strategy is invested mainly in green bonds, which can offer the same returns as a comparable conventional bond[2] plus the added benefit of enabling projects with environmental benefits in a transparent manner. Given a relatively nascent green bond market, diversification is achieved by investing in issuers which facilitate the transition to the low carbon economy while displaying robust fundamentals. Green bond issues are mostly investment grade, but can also be high yield, enabling diversification across risk profiles, sectors and currencies.
- **Potentially attractive yield.** As a solution for investors looking to shift conventional investments towards specific environmental investments, the strategy has the potential to provide an attractive yield within the fixed income universe. This means that the investor is able to retain yield levels, relative to the wider fixed income universe, when investing in this solution while making a positive environmental impact.
- **A natural fit with Responsible Investment (RI).** The combination of our fixed income and RI experts enables us to make a holistic assessment of each issuer, from its environmental, social and governance (ESG) track record and quality, to its demonstrable environmental benefits of projects financed and to its use of bond proceeds. The team takes fundamental credit views, with in-depth credit market knowledge gained across different market cycles, as well as from strong relationships with key issuers developed over the years. Supported by our vast fixed income resources, the team carries out both portfolio management and relative value research, enabling swift and pro-active decision-making.
- **Fundamental, conviction-based bond selection.** We believe that investing in sustainable assets can create long term value and attractive returns, both financially and environmentally. The team employs rigorous bond selection based on the RI eligible universe, filtering names which are not contributing to the low carbon economy and carrying out in-depth fundamental credit analysis at sector and issuer levels to construct an efficient portfolio. This is integrated into our well established global fixed income process, which identifies top-down and technical investment opportunities.
- **Draws on our long-standing experience.** AXA IM has been strategically committed to RI since 1997. AXA IM fixed income offers a wealth of experience built over various market cycles, with €450[4] billion of fixed income assets under management. The strategy will draw on AXA IM's global fixed income process and harness the dedicated investment team of six portfolio managers and analysts, which is itself supported by fundamental credit researchers, portfolio engineers, economists and strategists, traders and the 17 RI and Impact experts.

[1] Source: This analysis is based on the observation of all green bonds of the Planet Bonds strategy that have comparable volatility and financial performance to its conventional pairs. AXA IM/Bloomberg as of 11/8/15.
[2] Source: AXA IM, BofAML Green Bond Index as at 30/6/15.
[3] Source: AXA IM as at 30/6/2015. Unaudited data.
[4] Source: The Climate Bonds Initiative

www.axa-im-international.com

INVESTMENT MANAGERS

Fundamental, conviction-based bond selection. We believe that investing in sustainable assets can create long term value and attractive returns, both financially and environmentally. The team employs rigorous bond selection based on fundamental credit and ESG analysis at sector and issuer level to construct an efficient portfolio. This is integrated into our well established global fixed income process, which identifies top-down and technical investment opportunities.

AXA IM's long-standing experience. AXA IM has been strategically committed to RI since 1997. AXA IM fixed income offers a wealth of experience built over various market cycles, with EUR 450bn of fixed income assets under management. The AXA IM Planet Bonds strategy draws on AXA IM's global fixed income process and is supported by fundamental credit researchers, portfolio engineers, economists and strategists, traders and the AXA IM RI team.

Press release

Private placements are growing as demonstrated by Schneider's green bond issuance in the French market last year. AXA IM was a leading partner in completing this deal, allocating almost 80% (EUR 160mn) of the issue. With the expansion of the market in green investments, we view having a highly selective investment approach as critical.

Source: AXA IM as at 31.12.2015

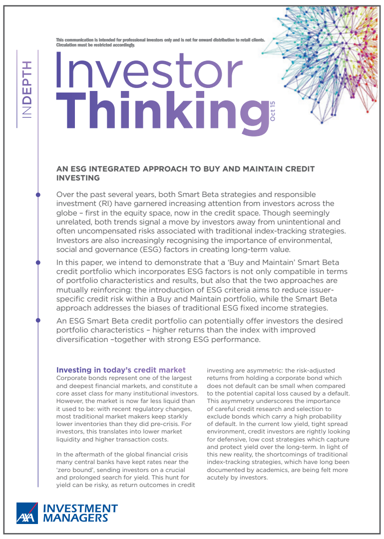
The Planet Bonds strategy is subject to credit and counterparty risk.

THOUGHT LEADERSHIP-INVESTOR THINKING
AN ESG INTEGRATED APPROACH TO BUY AND MAINTAIN CREDIT INVESTING

Over the past several years, both Smart Beta strategies and RI have garnered increasing attention from investors across the globe – first in the equity space, now in the credit space. Though seemingly unrelated, both trends signal a move by investors away from unintentional and often uncompensated risks associated with traditional index-tracking strategies. Investors are also increasingly recognising the importance of ESG factors in creating long-term value.

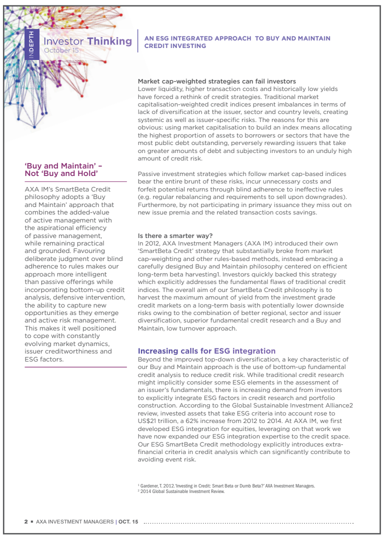
In this paper, we demonstrate that a 'Buy and Maintain' Smart Beta credit portfolio which incorporates ESG factors is not only compatible in terms of portfolio characteristics and results, but also that the two approaches are mutually reinforcing: the introduction of ESG criteria aims to reduce issuer-specific credit risk within a Buy and Maintain portfolio, while the Smart Beta approach addresses the biases of traditional ESG fixed income strategies.

An ESG Smart Beta credit portfolio can potentially offer investors the desired portfolio characteristics – higher returns than the index with improved diversification–together with strong ESG performance.



Investor Thinking

AN ESG INTEGRATED APPROACH TO BUY AND MAINTAIN CREDIT INVESTING



AN ESG INTEGRATED APPROACH TO BUY AND MAINTAIN CREDIT INVESTING

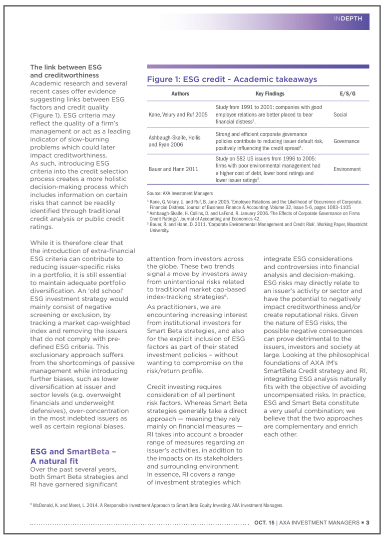


Figure 1: ESG credit - Academic takeaways

THOUGHT LEADERSHIP-INVESTOR THINKING

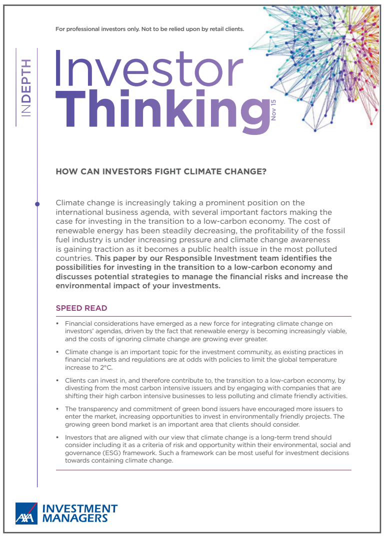
HOW CAN INVESTORS FIGHT CLIMATE CHANGE?

Financial considerations have emerged as a new force for integrating climate change on investors' agendas, driven by the fact that renewable energy is becoming increasingly viable, and the costs of ignoring climate change are growing ever greater.

Climate change is an important topic for the investment community, as existing practices in financial markets and regulations are at odds with policies to limit the global temperature increase to 2°C.

Clients can invest in and therefore contribute to the transition to a low-carbon economy, by divesting from highest carbon intensive issuers and by engaging with companies that are shifting their high carbon intensive businesses to less polluting and more climate friendly activities.

Investors that are aligned with our view that climate change is a long-term trend may wish to consider including it as a criteria of risk and opportunity within their ESG framework. Such a framework can be most useful for investment decisions towards containing climate change.



For professional investors only. Not to be relied upon by retail clients.

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Investor Thinking

Nov 15

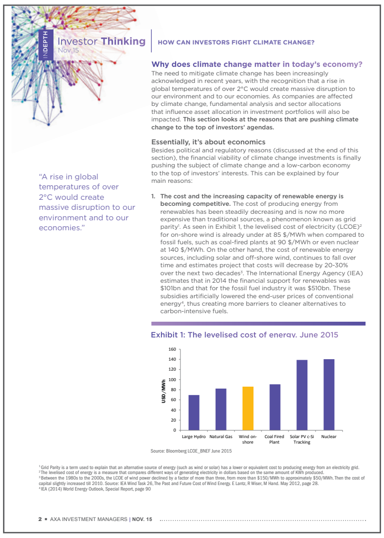
HOW CAN INVESTORS FIGHT CLIMATE CHANGE?

Climate change is increasingly taking a prominent position on the international business agenda, with several important factors making the case for investing in the transition to a low-carbon economy. The cost of renewable energy has been steadily decreasing, the profitability of the fossil fuel industry is under increasing pressure and climate change awareness is gaining traction as it becomes a public health issue in the most polluted countries. **This paper by our Responsible Investment team identifies the possibilities for investing in the transition to a low-carbon economy and discusses potential strategies to manage the financial risks and increase the environmental impact of your investments.**

SPEED READ

- Financial considerations have emerged as a new force for integrating climate change on investors' agendas, driven by the fact that renewable energy is becoming increasingly viable, and the costs of ignoring climate change are growing ever greater.
- Climate change is an important topic for the investment community, as existing practices in financial markets and regulations are at odds with policies to limit the global temperature increase to 2°C.
- Clients can invest in, and therefore contribute to, the transition to a low-carbon economy, by divesting from the most carbon intensive issuers and by engaging with companies that are shifting their high carbon intensive businesses to less polluting and climate friendly activities.
- The transparency and commitment of green bond issuers have encouraged more issuers to enter the market, increasing opportunities to invest in environmentally friendly projects. The growing green bond market is an important area that clients should consider.
- Investors that are aligned with our view that climate change is a long-term trend should consider including it as a criteria of risk and opportunity within their environmental, social and governance (ESG) framework. Such a framework can be most useful for investment decisions towards containing climate change.

INVESTMENT MANAGERS



INDEPTH Investor Thinking Nov 15 | HOW CAN INVESTORS FIGHT CLIMATE CHANGE?

Why does climate change matter in today's economy?

The need to mitigate climate change has been increasingly acknowledged in recent years, with the recognition that a rise in global temperatures of over 2°C would create massive disruption to our environment and to our economies. As companies are affected by climate change, fundamental analysis and sector allocations that influence asset allocation in investment portfolios will also be impacted. **This section looks at the reasons that are pushing climate change to the top of investors' agendas.**

"A rise in global temperatures of over 2°C would create massive disruption to our environment and to our economies."

Essentially, it's about economics

Besides political and regulatory reasons (discussed at the end of this section), the financial viability of climate change investments is finally pushing the subject of climate change and a low-carbon economy to the top of investors' interests. This can be explained by four main reasons:

1. **The cost and the increasing capacity of renewable energy is becoming competitive.** The cost of producing energy from renewables has been steadily decreasing and is now no more expensive than traditional sources, a phenomenon known as grid parity[1]. As seen in Exhibit 1, the levelised cost of electricity (LCOE)[2] for on-shore wind is already under at 85 \$/MWh when compared to fossil fuels, such as coal-fired plants at 90 \$/MWh or even nuclear at 140 \$/MWh. On the other hand, the cost of renewable energy sources, including solar and off-shore wind, continues to fall over time and estimates project that costs will decrease by 20-30% over the next two decades[3]. The International Energy Agency (IEA) estimates that in 2014 the financial support for renewables was \$101bn and that for the fossil fuel industry it was \$510bn. These subsidies artificially lowered the end-user prices of conventional energy[4], thus creating more barriers to cleaner alternatives to carbon-intensive fuels.

Exhibit 1: The levelised cost of energy, June 2015

Source: Bloomberg LCOE_BNEF June 2015

[1] Grid Parity is a term used to explain that an alternative source of energy (such as wind or solar) has a lower or equivalent cost to producing energy from an electricity grid.
[2] The levelised cost of energy is a measure that compares different ways of generating electricity in dollars based on the same amount of KWh produced.
[3] Between the 1980s to the 2000s, the LCOE of wind power declined by a factor of more than three, from more than \$150/MWh to approximately \$50/MWh. Then the cost of capital slightly increased till 2010. Source: IEA Wind Task 26, The Past and Future Cost of Wind Energy. E Lantz, R Wiser, M Hand. May 2012, page 28.
[4] IEA (2014) World Energy Outlook, Special Report, page 90

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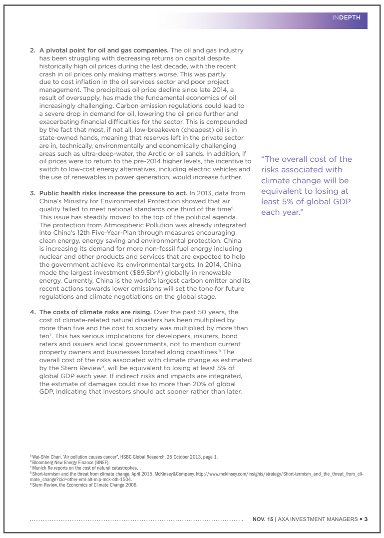


INDEPTH

2. **A pivotal point for oil and gas companies.** The oil and gas industry has been struggling with decreasing returns on capital despite historically high oil prices during the last decade, with the recent crash in oil prices only making matters worse. This was partly due to cost inflation in the oil services sector and poor project management. The precipitous oil price decline since late 2014, a result of oversupply, has made the fundamental economics of oil increasingly challenging. Carbon emission regulations could lead to a severe drop in demand for oil, lowering the oil price further and exacerbating financial difficulties for the sector. This is compounded by the fact that most, if not all, low-breakeven (cheapest) oil is in state-owned hands, meaning that reserves left in the private sector are in, technically, environmentally and economically challenging areas such as ultra-deep-water, the Arctic or oil sands. In addition, if oil prices were to return to the pre-2014 higher levels, the incentive to switch to low-cost energy alternatives, including electric vehicles and the use of renewables in power generation, would increase further.
3. **Public health risks increase the pressure to act.** In 2013, data from China's Ministry for Environmental Protection showed that air quality failed to meet national standards one third of the time[5]. This issue has steadily moved to the top of the political agenda. The protection from Atmospheric Pollution was already integrated into China's 12th Five-Year-Plan through measures encouraging clean energy, energy saving and environmental protection. China is increasing its demand for more non-fossil fuel energy including nuclear and other products and services that are expected to help the government achieve its environmental targets. In 2014, China made the largest investment (\$89.5bn[6]) globally in renewable energy. Currently, China is the world's largest carbon emitter and its recent actions towards lower emissions will set the tone for future regulations and climate negotiations on the global stage.
4. **The costs of climate risks are rising.** Over the past 50 years, the cost of climate-related natural disasters has been multiplied by more than five and the cost to society was multiplied by more than ten[7]. This has serious implications for developers, insurers, bond raters and issuers and local governments, not to mention current property owners and businesses located along coastlines.[8] The overall cost of the risks associated with climate change as estimated by the Stern Review[9], will be equivalent to losing at least 5% of global GDP each year. If indirect risks and impacts are integrated, the estimate of damages could rise to more than 20% of global GDP, indicating that investors should act sooner rather than later.

"The overall cost of the risks associated with climate change will be equivalent to losing at least 5% of global GDP each year."

[5] Wai-Shin Chan. "Air pollution causes cancer", HSBC Global Research, 25 October 2013, page 1.
[6] Bloomberg New Energy Finance (BNEF).
[7] Munich Re reports on the cost of natural catastrophes.
[8] Short-termism and the threat from climate change, April 2015, McKinsey&Company. http://www.mckinsey.com/insights/strategy/Short-termism_and_the_threat_from_climate_change?cid=other-eml-alt-mip-mck-oth-1504.
[9] Stern Review, the Economics of Climate Change 2006.

NOV. 15 | AXA INVESTMENT MANAGERS ▪ 3

EXPANSION OF ESG FUNDAMENTAL RESEARCH

In 2015, we began to significantly reinforce our ESG Fundamental Research team and coverage. This decision was motivated by the acceleration of the ESG integration process among our clients and also by the consolidation of the Green Bond market.

The RI team works on a daily basis with AXA IM investment platforms across asset classes to reach decisions on material ESG factors for investment. In addition, our clients recognise AXA IM as a robust partner in their ambitions to integrate ESG fundamental research into their investment decisions and solutions.

In 2015, our ESG Fundamantal Research team conducted deep ESG analysis expanding beyond equities, especially into fixed income and green bonds. This required methodology development and innovation to enable us to integrate ESG criteria into the investment process in a material and pragmatic way.

ESG Fundamental Research is now organised across seven main sectors: Financials, Transport, Sciences, Consumers, Energy, TMT and Real Assets. Each pole is covered by a lead analyst responsible for embedding ESG content into their sector and thematic analyses. Our ESG fundamental analysts have diverse backgrounds and experiences from the financial, NGO and RI worlds; their common ground is their strong ESG convictions and their ability to influence portfolio managers' decisions with their views.

We also have a dedicated analyst for green bonds. Beyond climate change, we are reinforcing our Impact framework by expanding our fundamental research into the listed impact field as well.

RECOGNISED LEADERSHIP IN IMPACT

INVESTMENT WEEK
Sustainable Investment Awards 2015
WINNER
Award for Innovation

AXA IM's Impact Investment programme was launched in September 2013 with an initial commitment from the AXA Group of EUR 150mn. This initial commitment was then increased by a further EUR 50mn in 2015. As a result, The AXA IM Impact Investment programme now manages EUR 200mn.

The AXA IM Impact Team won the Innovation Award at Investment Week's Sustainable Investment Awards 2015; a clear recognition of our leadership through innovation in the Impact Investment industry.

The Sustainable Investment Awards from Investment Week is firmly established as one of the key benchmarks for excellence, innovation and quality and recognises the industry's leaders in Sustainable Investment.

The next phase of RI will be the incorporation of Impact. We see Impact investment as a wave – it started with private placements and alternatives, but will grow to touch all asset classes, including listed and public securities. We believe that in time, the culture of impact measurement will become embedded across the financial industry.

I NTENTIONAL
MEASURABLE
P OSITIVE
A CCESS
C OMMITMENT
T ANGIBLE

RECOGNISED LEADERSHIP IN REAL ASSETS

2016 WINNER
BEST INNOVATIVE GREEN BUILDING
mipim AWARDS

The Treurenberg, Brussels' first net zero energy building, recently won the award for "Best Innovative Green Building " at the MIPIM Awards Ceremony in Cannes – a prestigious and revered event that brings together real estate professionals from over 80 countries.

Developed by the AXA IM Real Assets team, the Treurenberg provides 10 500m^2 of lettable office space and is equipped with the most advanced renewable energy technology. Due to this technology, the development already meets European energy standards set for 2020 and has been certified as Excellent by BREEAM. All efforts towards innovative design have enabled the total annual energy consumption of the project to be offset by on-site renewable energy generation.

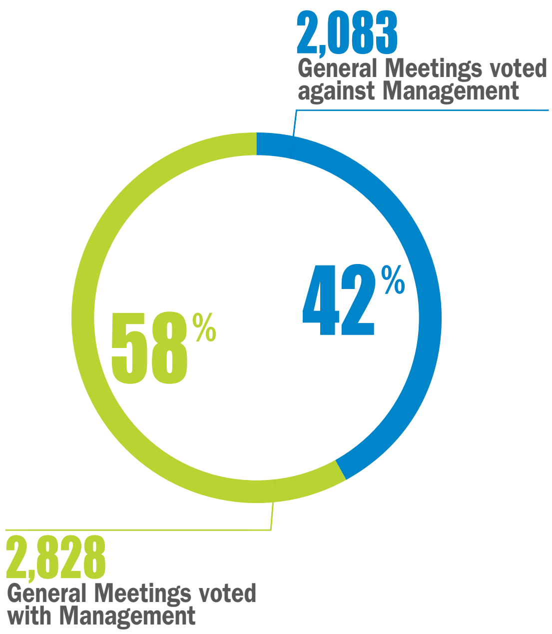
This development affirms that AXA IM Real Assets' sustainable development strategy is underway towards obtaining a certification on 75% of its real estate AUM by 2030.

The references to league tables and awards are not an indicator of the future places in league tables or awards.
Investment Week Innovation Award: November 2015.
MIPIM Award: March 2016.

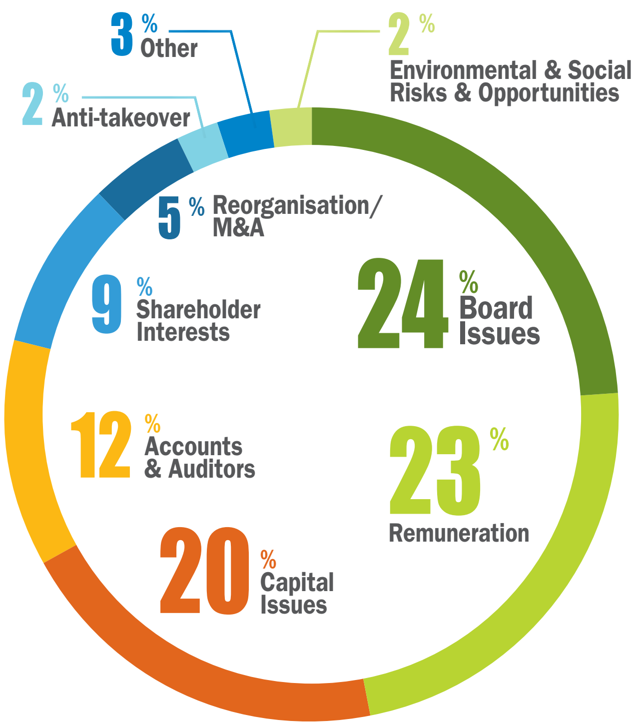
ACTIVE STEWARDSHIP
VOTING/ENGAGEMENT

Our Stewardship activities expanded to a global voting perimeter of 4,911 Annual General Meetings. Equally as important, our engagement activities focused on key themes where objectives to improve company performance were defined and outcomes were achieved.
For more information you can also refer to the AXA IM Annual Stewardship Report and to the AXA IM Corporate Governance and Voting Policy.

4,911 General Meetings



Dissenting votes



Source: AXA IM as at 31.12.2015

Our full voting records are published here.
Over the course of 2015, we engaged with 230 companies on a broad range of issues.

EXAMPLES		
COMPANY	ISSUES	COUNTRY
Fortescue Metals Group	Shareholder Rights	Australia
Royal Dutch Shell	Strategy - Remuneration - M&A - Environment	Netherlands
Standard Chartered	Performance - Strategy - Board - Remuneration	UK
Vivendi	M&A - Shareholder Rights	France
Volkswagen AG	Environment	Germany
Ford	Emissions & Environmental Impacts	USA
BHP Billiton	Environmental & Safety Risks	UK
HSBC	Board Oversight - Conduct Issues	UK
Toyota	Emissions - Environmental Impact	Japan
Enagas	Performance - Strategy - Board Diversity	Spain

PRESS CLIPPINGS

RI Annual Review 2015

"Climate risk is becoming synonymous with reputation risk," said Luisa Florez, Head of ESG Fundamental Research at AXA Investment Managers, which manages over €600bn of assets. "Undoubtedly, there are a number of factors behind the recent decline in oil prices, such as shale gas development. Nevertheless, moral issues are also playing a growing role, with the divestment movement steadily gaining traction amongst investors across the globe."
Guardian, 16 January 2015

Another concern about setting firmer standards in the green bond market is that it would reduce competition and create a more generic product. "The initiatives that are out there now are good [and are] creating new and competing ideas," said Matt Christensen, global head of responsible investment at AXA Investment Managers. "If you put that stamp on it too quickly you risk slowing down the market too quickly."
Global Capital, 5 March 2015

"The majority of chairmen understand the role but we sometimes find the board doesn't intervene as quickly as we would like. They sometimes give the benefit of the doubt," said Shade Duffy, head of corporate governance at AXA Investment Managers, the fund arm of French insurer AXA. "That's why we think it's important for chairmen to have a good relationship with investors, so they can access what markets think about the performance of the company and executives."
Reuters, 23 April 2015

"Over time we will see that some superannuation schemes will follow what we've been seeing happening with endowments and charities, as owners of capital create a dedicated pocket for impact investment," said Matt Christensen, Head of Responsible Investment at AXA IM.
Responsible Investor, 27 November 2015

TO WATCH IN 2016

We believe that 2016 will be the continuation of the 'RI Big Bang' of 2015 and a milestone year during which RI progresses from a specialist area to a 'must have' feature of asset management.

Some of the notable developments the AXA IM RI and Impact team will be anticipating in 2016:

- In a post COP 21 environment, investors from around the globe are seeking to better understand implications and choices around their investment decisions in a carbon constrained market environment. In France, investors are preparing for regulatory changes that will demand improved communication on how climate change factors will be monitored.
- ESG integration is increasingly being discussed, whether it be the most recent clarification on ERISA law in the USA or the EU review of fiduciary duty for pension funds. Even in softer regulatory approaches, we see for example the Financial Stability Board urging companies to better disclose climate risks, which will in turn increase transparency on ESG issues.
- Impact investment is becoming a natural extension of RI as a valuable complement to ESG integrated investments. What was once a discussion only in the alternative asset classes is becoming a hot topic into fixed income, listed equity and other areas of the investment spectrum. We see the acceleration of this phenomenon from Responsible Investments to Impact Investments over time.
- We are aiming to launch our second Impact Programme and will also be working on an Impact fund in the listed equity space.

2015 PRI **ASSESSMENT**

AXA IM has been a signatory to the Principles for Responsible Investment since 2007.
AXA IM is committed to supporting the principles. Each year, AXA IM's Responsible Investment Transparency Report is disclosed on the PRI website.

The table below presents an overview of AXA IM's 2015 PRI Assessment scores for each module, our score for our overarching approach to RI is A+.

AUM (%)	MODULE	E D C B A A+
OVERARCHING APPROACH TO RESPONSIBLE INVESTMENT		
	Overarching Approach	You scored A+ Median Score B
DIRECT & ACTIVE OWNERSHIP MODULES		
10-50%	Listed Equity - Incorporation	You scored A Median Score A
10-50%	Listed Equity - Active Ownership	You scored A Median Score B
10-50%	Fixed Income Corporate	You scored A Median Score C
10-50%	Fixed Income Government	You Scored B E
<10%	Property	You scored A Median Score C

The table below presents an overview of AXA IM's 2015 PRI Assessment scores for each module as compared to 2014 scores.

Module	2014 level	2015 level	Change
Overarching Approach Module	A	A+	↑
DIRECT & ACTIVE OWNERSHIP MODULES			
Listed Equity - Incorporation	A	A	–
Listed Equity - Active Ownership	A	A	–
Fixed Income Corporate	B	A	↑
Fixed Income Government	C	B	↑
Property	A	A	–

Source: UN PRI. June 2015.

OUR APPROACH TO RESPONSIBLE AND IMPACT INVESTMENTS

AVOID

Avoid exposures that conflict with your principles & values

IDENTIFY

Identify ESG risks & opportunities

INVEST

Invest by incorporating ESG analysis

IMPACT

Impact with outcome-oriented investments

A comprehensive range of strategies to fit your objectives

From Responsible to Impact Investments

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AXA INVESTMENT MANAGERS

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The registered office address is 7 Newgate Street, London EC1A 7NX
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